

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



***Economic Development
Administration***

***Trade Task Group
Seattle, Washington***

***Trade Adjustment Assistance
for Firms:
Cooperative Agreements***

***Final Audit Report No. STL-19882
August 18, 2010***

For Public Release

Office of Audits, Seattle Regional Office





UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

August 18, 2010

Mr. Gary Kuhar, Executive Director
Trade Task Group
1200 Westlake Avenue N., Suite 802
Seattle, WA 98109

Dear Mr. Kuhar:

Enclosed is a copy of the Office of Inspector General's final audit report number, STL-19882, concerning the Trade Adjustment Assistance for Firms financial assistance awards to your organization (award numbers 99-26-07621, 99-26-07635, 99-26-07645, 99-26-07645.01, 99-26-07661, and 99-26-07661-01) by the Economic Development Administration.

This letter is notice of your opportunity and responsibility to review the report and to develop a complete response that addresses each audit finding and recommendation. If you believe that the report is in error in any respect or if you disagree with any of the findings and recommendations, it is important that you explain the error or your reasons for disagreement and submit evidence to the Department that supports your position or reference any such evidence submitted previously. You should also explain how each documentary submission supports your position; otherwise, we may be unable to evaluate the information.

Your response must be postmarked no later than 30 days from the date of this letter. There will be no extensions to this deadline, and you will have no other opportunity to submit comments, arguments, or documentation before the Department makes a decision on the audit findings and recommendations. The Department will consider your complete response in determining what action to take with respect to our audit. Enclosure 1 explains administrative dispute procedures available to you.

As you prepare your response, if you have any questions about this report or the process by which the Department reaches a final decision, please call David Sheppard, regional inspector general for audit, at (206) 220-7970 and reference final audit report number STL-19882.

Please send your response (including documentary evidence) to:

Brian McGowan, Deputy Assistant Secretary
for Economic Development
Economic Development Administration
1401 Constitution Avenue, NW
Washington, D.C. 20230

Letter to Mr. Gary Kuhar
August 18, 2010
Page 2

Please send a copy of your response to:

David Sheppard, Regional Inspector General for Audit
Office of Inspector General
U.S. Department of Commerce
915 Second Avenue, Room 3062
Seattle, WA 98174

After evaluation of your response, the audit action official may provide you with further guidance or request clarification. Our final report, along with your response, will be posted on OIG's website pursuant to section 8L of the Inspector General Act of 1978, as amended.

Sincerely,

A handwritten signature in black ink that reads "Ann Eilers". The signature is written in a cursive style with a large initial "A".

Ann Eilers
Principal Assistant Inspector General for Audit and Evaluation

Enclosures

cc: David H. Leroy, Esq., Chairman, Trade Task Group
Ronald A. Schoenheit, President, Trade Task Group
Brian McGowan, Deputy Assistant Secretary for Economic Development
Joshua Barnes, Audit Liaison, Economic Development Administration
David Sheppard, Regional Inspector General for Audit

NOTICE TO AUDITEE
Financial Assistance Audits

1. Audit requirements applicable to a particular financial assistance award may be established by law, regulation, policy, or the terms of the recipient's financial assistance agreement with the Department of Commerce.
2. The results of any audit will be reported to the bureau or office administering the financial assistance award and to the recipient/auditee, unless the Inspector General of the Department determines that it is in the Government's interest to withhold release of the audit report.
3. The results of an audit may lead to adverse consequences for the auditee, including but not limited to the following actions (which are subject to applicable laws and regulations):
 - suspension and/or termination of current awards;
 - referral of identified problems to other federal funding agencies and entities as deemed necessary for remedial action;
 - denial of eligibility for future awards;
 - canceling the authorization for advance payment and substituting reimbursement by check;
 - establishment of special conditions in current or future awards; and
 - disallowance of costs, which could result in a reduction in the amount of federal payments, the withholding of payments, the offsetting of amounts due the Government against amounts due the auditee, or the establishment of a debt and appropriate debt collection follow-up (including referrals to collection agencies).

Because of these and other possible consequences, an auditee should take seriously its responsibility to respond to audit findings and recommendations with explanations and evidence whenever audit results are disputed and the auditee has the opportunity to comment.

4. To ensure that audit reports are accurate and reliable, an auditee may have the following opportunities to point out errors (of fact or law) that the auditee believes were made in the audit, to explain other disagreements with audit findings and recommendations, to present evidence that supports the auditee's positions, and to dispute final recommendations:

- During the audit, the auditee may bring to the attention of the auditors at any time evidence that the auditee believes affects the auditors' work.
- At the completion of the audit on-site, as a matter of courtesy, the auditee is given the opportunity to have an exit conference to discuss the preliminary audit findings and to present a clear statement of the auditee's position on the significant preliminary findings, including possible cost disallowances.
- Upon issuance of the draft audit report, the auditee may be given the opportunity to comment and submit evidence during the 30-day period after the transmittal of the report. (There are no extensions to this deadline.)
- Upon issuance of the final audit report, the auditee is given the opportunity to comment and to present evidence during the 30-day period after the transmittal of the report. (There are no extensions to this deadline.)
- Upon issuance of the Department's decision (the "Audit Resolution Determination"), on the audit report's findings and recommendations, the auditee has the right to appeal for reconsideration within 30 calendar days after receipt of the Determination letter if monies are due the government. (There are no extensions to this deadline.) The Determination letter will explain the specific appeal procedures to be followed.
- After an appeal is filed, or after the opportunity for an appeal has expired, the Department will not accept any further submissions of evidence concerning an auditee's dispute of the Department's decisions on the resolution of the financial assistance audit. If it is determined that the auditee owes money or property to the Department, the Department will take appropriate collection action but will not thereafter reconsider the merits of the debts.
- There are no other administrative appeals available in the Department.

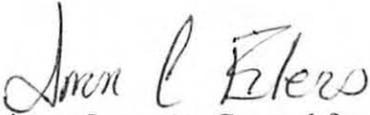


UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

August 18, 2010

MEMORANDUM FOR: Brian McGowan, Deputy Assistant Secretary
for Economic Development
Economic Development Administration

FROM:

Ann Eilers 
Principal Assistant Inspector General for Audit and Evaluation

SUBJECT:

Final Audit Report No. STL-19882, Trade Adjustment Assistance
for Firms Cooperative Agreements
Auditee: Trade Task Group
Seattle, Washington
EDA Grant Nos. 99-26-07621
99-26-07635
99-26-07645
99-26-07645.01
99-26-07661
99-26-07661-01

Attached is a copy of our final audit report on the Trade Adjustment Assistance for Firms (TAAF) awards for your action in accordance with Department Administrative Order (DAO) 213-5, *Audit Resolution and Follow-up*. Our final audit report has been sent to the recipient, who has until September 18, 2010, to submit comments and supporting documentation to you. A copy of our final audit report will be posted on OIG's website pursuant to section 8L of the Inspector General Act of 1978, as amended.

Under DAO 213-5, you have 60 calendar days from the date of this memorandum to reach a decision on the actions you propose to take on each audit finding and recommendation and to submit an audit resolution proposal to this office. The format of the proposal is shown in Exhibit 8 of the DAO. As applicable, your written proposal must include the rationale and/or legal basis for reinstating any questioned costs in the report and should reference any supporting documentation you relied on. Your comments should also address the funds to be put to better use, if any, cited in the report. Under the DAO, the Office of Inspector General must concur with your proposal before it may be issued as a final determination and

implemented. The DAO prescribes procedures for handling any disagreements this office may have with the audit resolution proposal. Also, please copy us when the audit determination letter is sent to the auditee.

Please direct any questions regarding this report to David Sheppard, regional inspector general for audit, at (206) 220-7970 and refer to the final audit report number listed above in any related correspondence.

Attachment

cc: Phil Paradice, Acting Deputy Assistant Secretary for Regional Affairs and
Atlanta Regional Director
Barry Bird, Chief Counsel, Economic Development Administration
Joshua Barnes, Audit Liaison, Economic Development Administration
Bryan Borlick, Director, Trade Adjustment Assistance for Firms and
Director, Performance and National Programs
David Sheppard, Regional Inspector General for Audit



Report In Brief

U.S. Department of Commerce Office of Inspector General

August 18, 2010



Why We Did this Review

The objective of our audit was to determine whether the Trade Task Group was using the cooperative agreement funds it received in accordance with award requirements.

In particular, our objectives were to determine whether (1) costs claimed were reasonable, allowable, and allocable to the federal program; (2) the Trade Task Group established and followed adequate internal controls in the bid process for consultants; and (3) companies receiving TAAF assistance had been trade-injured due to foreign competition.

Background

The Trade Act of 1974, as amended, authorized the President to negotiate international trade agreements. Recognizing that a free trade policy can result in injuries to U.S. business through market, sales, and job losses, the act also created the Trade Adjustment Assistance Program to mitigate the negative effects on affected manufacturing companies by providing technical assistance.

The American Recovery and Reinvestment Act of 2009 included provisions to expand the TAAF program by allowing service industry firms the opportunity to apply for assistance.

Economic Development Administration

Trade Task Group: Trade Adjustment Assistance for Firms (TAAF) Cooperative Agreement (STL-19882)

From March 2005 to February 2010, EDA awarded \$5,824,514 in TAAF cooperative agreements to the Trade Task Group as part of its efforts to strengthen the competitiveness of U.S. companies that have been adversely affected by imported goods and services. The Trade Task Group claimed a total of \$5,211,802 in project costs from March 2005 through November 30, 2009.

Our audit found that the Trade Task Group has generally complied with TAAF grant requirements; however, the group's financial management system did not meet the minimum standards required by uniform administrative requirements. This deficiency has resulted in \$41,195 in costs that were unallowable, unsupported, or unreasonable in accordance with Office of Management and Budget cost principles.

What We Recommended

We made the following recommendations to the director of the TAAF program:

- disallow and recover the \$41,195 in questioned costs;
- work with the Trade Task Group to determine from which specific cooperative agreements funds were carried over and whether any funds should be disallowed and recovered;
- require compliance with minimum federal financial management standards; and
- provide training and guidance to the entities receiving TAAF cooperative agreements to clarify records-retention requirements.

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Introduction

In March 2005, the Economic Development Administration (EDA) awarded the first year of a 3-year Trade Adjustment Assistance for Firms (TAAF) cooperative agreement to the Trade Task Group in Seattle, Washington. The purpose of the award was to help strengthen the competitiveness of U.S. companies that have lost domestic sales and employment because of increased importing of similar goods and services.

EDA implements the TAAF program through a network of 11 regional, nonprofit organizations, which manage the program through cooperative agreements. The nonprofit organizations are known as Trade Adjustment Assistance Centers (TAACs) and operate as non-federal business strategy consultants providing companies with assistance in developing recovery plans. The TAACs assist EDA with the companies' eligibility, certification, and plan approval processes. The TAACs also assist in the hiring and oversight of consultants who help companies implement recovery plans approved by EDA. The TAACs usually receive from \$900,000 to \$1.4 million annually to pay administrative expenses and a share of the cost for technical assistance. The TAACs and clients share the cost of technical assistance on a 50/50 or 75/25 basis. Total project costs per client are limited to \$150,000 with a TAAC share not to exceed \$75,000. The companies pay the lesser share of the cost when split on a 75/25 basis. EDA considers these non-federal contributions to be fees for services rendered to the client firms, not a matching requirement of the TAACs or program-related income.

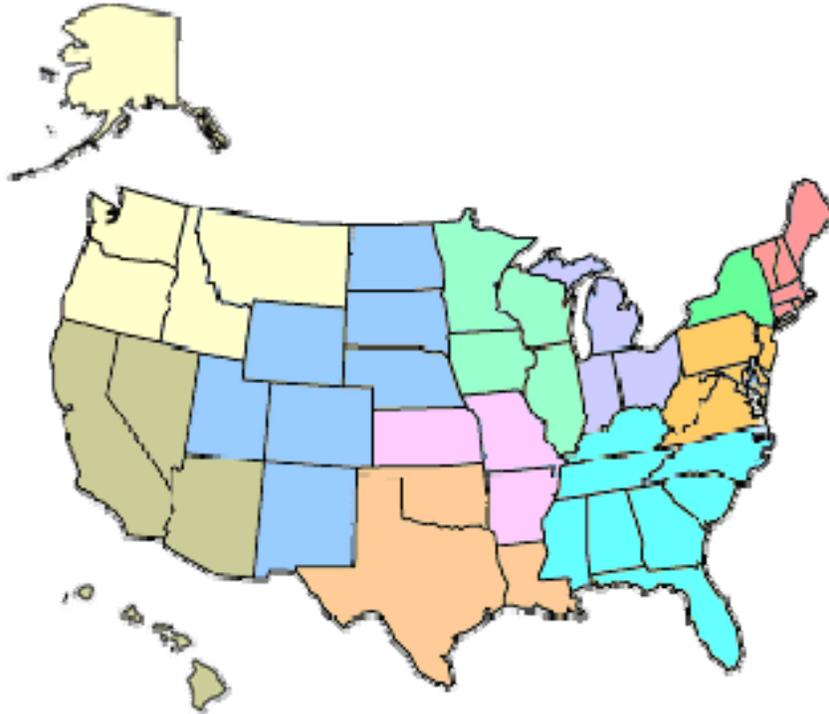
The Trade Task Group is a nonprofit corporation that operates the Northwest Trade Adjustment Assistance Center (NWTAAAC). NWTAAAC provides matching grants to companies adversely affected by competition from imports. NWTAAAC's sole source of income is through the EDA



The *Trade Act of 1974*, as amended, authorized the President to negotiate international trade agreements. Recognizing that free trade policy can result in injuries to U.S. business through market, sales, and job losses, the act also created the **Trade Adjustment Assistance (TAA) Program** to mitigate the negative effects on affected manufacturing companies by providing technical assistance. The *American Recovery and Reinvestment Act of 2009* included provisions to expand the **Trade Adjustment Assistance for Firms (TAAF) Program** by allowing service industry firms the opportunity to apply for TAA.

cooperative agreements and related fees generated through cost sharing. NWTAAAC's operations cover the geographic region of Alaska, Idaho, Montana, Oregon, and Washington (see figure 1).

Figure 1. Map of the 11 TAAC Regions



Source: www.taacenters.org/contact.asp

During the award period of March 2005 through June 2008, the Trade Task Group was awarded \$3.7 million in federal funds with a budgeted non-federal share of \$501,900, for total project costs of \$4.2 million. In July 2008, EDA awarded another 3-year TAAF cooperative agreement to the Trade Task Group. As of our audit date, EDA had approved amendments under this cooperative agreement for the period July 2008 through February 2010, which included \$2.1 million in federal funds with a budgeted \$366,500 non-federal share, for \$2.4 million in total project costs (See table 1). EDA generally awards TAAF cooperative agreements for a 3-year period, which includes an initial cooperative agreement award for the base year with amendments in the following years based on the funding level appropriated by Congress.

In December 2009, we initiated an audit of the costs claimed by the Trade Task Group. The audit was limited in scope and intended to specifically address allegations received by our office. The audit covered the period of March 1, 2005, through November 30, 2009, during which time the recipient claimed total project costs of \$7,019,880, with the federal share totaling \$5,211,802. This included a review of final closeout costs incurred during the March 2005 cooperative

agreement and the costs incurred during the interim period for the July 2008 cooperative agreement.¹

Table 1. Schedule of Cooperative Agreements

EDA Award	Agreement No.	Cooperative Agreement Period	Federal Share	Non-Federal Share ^a
Base Year 1	99-26-07621	3/1/05 – 2/28/06	\$ 1,094,484	\$ 120,226
Amendment 1	99-26-07635	3/1/06 – 2/28/07	1,087,332	140,403
Amendment 2	99-26-07645	3/1/07 – 2/29/08	947,580	77,116
Amendment 3	99-26-07621, 99-26-07635, 99-26-07645	3/1/07 – 2/29/08	197,670	69,184
Amendment 4	99-26-07645	3/1/08 – 5/31/08	316,609	94,982
Amendment 5	99-26-07645.01	6/1/08 – 6/30/08	104,060	0
Total Agreement 1			3,747,735	501,911
Base Year 2	99-26-07661	7/1/08 – 2/28/09	828,055	171,705
Amendment 1	99-26-07661.01	3/1/09 – 2/28/10	1,248,724	194,800
Total Agreement 2			2,076,779	366,505
Totals			\$ 5,824,514	\$ 868,416
<i>Source:</i> EDA				
^a Non-federal share refers to contributions to contractual expenditures by the firms receiving TAAF assistance. It does not refer to additional expenditures or sources of income required by the Trade Task Group.				

The objective of our audit was to determine whether the Trade Task Group was using the cooperative agreement funds in accordance with the award requirements. In particular, the objectives were to determine whether (1) costs claimed were reasonable, allowable, and allocable to the federal program; (2) the Trade Task Group established and followed adequate internal controls in the bid process for consultants; and (3) companies receiving TAAF assistance had been trade-injured due to foreign competition. Our review of costs incurred was limited in scope and did not include all expenses claimed. We did not review personnel, benefits, or contractual expenses, and we performed a targeted, risk-based review of the remaining expenses. For a full description of our objectives, scope, and methodology, see appendix A.

¹ EDA added amendments 4 and 5 to the first cooperative agreement and changed the beginning date for the second agreement in an effort to bring all TAACs to a consistent agreement period.

Our review identified the following:

- The Trade Task Group has claimed \$41,195 in costs that were unallowable, unsupported, or unreasonable in accordance with Office of Management and Budget (OMB) cost principles. Also, the Trade Task Group's financial management system does not meet minimum standards as required by the uniform administrative requirements (see finding 1).
- The Trade Task Group has implemented adequate internal controls to ensure that consultants hired to provide technical assistance for clients are procured in accordance with federal requirements. Furthermore, we did not identify any instances of noncompliance with federal procurement requirements (see finding 2).
- We determined that the Trade Task Group is not responsible for certifying firms' eligibility for TAAF assistance or ensuring that firms applying for assistance are eligible. Therefore, we did not conclude upon the eligibility of firms receiving TAAF assistance in this audit.
- The Trade Task Group has obtained adequate certifications and documentation to ensure contract compliance with clients and firms (see finding 3).

Summary of Recipient Response and OIG Comments

We received the Trade Task Group's written response to our draft audit report on April 15, 2010. The Trade Task Group agreed with some elements of the audit findings but disagreed with others. We considered the Trade Task Group's response in preparing the final report and made some modifications to the details of the report, but we also reaffirm our findings and recommendations. Due to the volume of the response and backup documents, we appended only the text of the response (as appendix F) and excluded the attachments. A copy of the complete response, with all attachments, is available for review at our office. The following summarize the recipient's response:

- The Trade Task Group emphasized that costs deemed unsupported have been adequately documented and that our questioning of these costs stems from its belief that we would not accept documentation it considered adequate. The Trade Task Group further argued that certain costs we questioned as unallowable should be allowed as employee morale costs and expenses ordinary and necessary in the performance of its mission.
- The Trade Task Group also asserted that its required policies and procedures were established over seven years ago. The Trade Task Group argued that it has attempted to satisfy the administrative principles of 15 CFR Part 14.
- Finally, the Trade Task Group asserted that its official client files were maintained in accordance with EDA guidance. The Trade Task Group alleged that OIG did not understand the certification process, which affected our review of the client files.

After reviewing the Trade Task Group's response, our comments can be summarized as follows:

- The Trade Task Group did not present any additional documentation or information regarding the questioned costs that changed our conclusions. Therefore, we reaffirm the audit finding of the questioned costs as unallowable, unreasonable, and unsupported as set forth in the audit report.
- We acknowledge that the Trade Task Group does have select written policies and procedures for financial management activity, but maintain that additional written policies and procedures are still necessary to meet the minimum standards for grantees' financial systems as set forth in the uniform administrative requirements. The written policies and procedures in place should also be improved to fully comply with the minimum standards for grantee financial management systems.
- We agree that EDA is responsible for maintaining the official applications and client files. We also agree that the Trade Task Group may not be responsible for compliance with the records retention requirements of 15 CFR §14.53 if EDA considers client applications as a transfer of documents. However, we recommend EDA provide clear guidance as to whether it expects the Trade Task Group to maintain copies of all

documentation. We have modified this finding in response to the Trade Task Group's comments.

Findings and Recommendations

I. Results of Financial/Compliance Audit

A. Questioned Costs Total \$41,195

We questioned \$41,195 in claimed costs as unallowable, unreasonable, or unsupported. From March 1, 2005, through November 30, 2009, the Trade Task Group incurred \$7,019,880 in total project costs, with the federal share totaling \$5,211,802. Our review disclosed that the Trade Task Group did not ensure its administration of the cooperative agreements adhered to award terms and conditions inclusive of federal cost principles, uniform administrative requirements, and special and standard award conditions. The results of our cost-incurred audit are summarized in table 2 and part B of finding 1, and are further detailed in appendixes B and C for the March 2005 agreement, and appendixes D and E for the interim audit of the July 2008 agreement.

Table 2. Summary of the Financial Results of Audit

Federal Funds Disbursed^a		\$ 5,173,218
Total Costs Incurred	\$ 7,019,880	
Less: Client Contributions ^b	(1,733,528)	
Less: Expenditures from Program Income ^c	<u>(74,550)</u>	
Federal Share of Expenditures	\$ 5,211,802	
Less: Questioned Costs	<u>(41,195)</u>	
Federal Funds Earned		\$ 5,170,607
Agreement 1: Excess of Expenditures over Revenue ^d	109,058	
Agreement 2: Excess of Revenue over Expenditures ^e	<u>(70,474)</u>	
Total Reconciling Items		<u>38,584</u>
Refund Due the Government		<u>\$ 41,195</u>

Source: Trade Task Group (Compiled by OIG)

^a *Federal Funds Disbursed* refers to funds received by the Trade Task Group from EDA during the period under audit. As we have audited the July 2008 cooperative agreement prior to completion, this amount will not tie to the total award from EDA.

^b *Client Contributions* are funds paid by client firms to consultants, not expenditures made by the Trade Task Group.

^c *Expenditures from Program Income* are additional contractual expenses funded by income from client firms through cost-sharing. They are not funded by the EDA and should not be included in the federal share of expenditures.

^d The Trade Task Group disbursed \$109,058 more than it received from EDA under the March 2005 cooperative agreement. This is discussed further in Finding 1 (See page 9).

^e Through November 30, 2009, the Trade Task Group received \$70,474 more from EDA than it disbursed under the July 2008 cooperative agreement. As the Trade Task Group receives all federal funds in advance of making program disbursements, it is expected that revenues will exceed disbursements until the end of the agreement.

B. Financial Management System Needs Improvement

The Trade Task Group's financial management system was not adequate to ensure the costs charged to the cooperative agreement were allowable, reasonable, and adequately supported. Our audit included an evaluation of the Trade Task Group's internal controls as they relate to financial assistance award provisions, specifically those provisions pertaining to financial management. This internal control weakness increased the risk of potential noncompliance with award requirements.

Although the Trade Task Group had established informal procedures and select written procedures, it did not have adequate written procedures for most financial management activities as required. Furthermore, our review disclosed that the written procedures were deficient, and the practices themselves and the system's implementation needed improvement.

Administrative principles at Title 15 of the Code of Federal Regulations (15 CFR), Part 14, are incorporated by reference into the Trade Task Group's cooperative agreement with EDA. These principles set forth the minimum requirements for recipient financial management systems. Among other things, the principles require recipients to have (1) accurate and complete disclosure of financial results in accordance with reporting requirements;² (2) records adequately identifying the sources and uses of funds;³ (3) adequate internal controls to ensure funds are used only for authorized purposes;⁴ (4) comparisons of budget to actual expenses by award;⁵ (5) written procedures to minimize the time between obtaining advanced federal funds and the disbursement of those funds;⁶ (6) written procedures to ensure disbursements are reviewed for and are consistent with federal cost principles and the terms of the cooperative agreement;⁷ and (7) accounting records that are adequately supported by source documentation.⁸

The Trade Task Group did not have the required written procedures providing a process for minimizing the time between obtaining advance funds from EDA and the time that related program disbursements are made. The Trade Task Group receives all payments from EDA before making qualified program disbursements.

The Trade Task Group did not have adequate documented written policies and procedures to ensure that required financial reports to EDA were complete and accurate. We found that the federal share of expenditures reported in the financial status reports did not match the expenditures in the general ledger for the same time period. This resulted in the under-reporting of the federal share of expenditures to EDA by \$400,232, or 7.24 percent, from October 1, 2004,

² 15 CFR §14.21(b)(1)

³ 15 CFR §14.21(b)(2)

⁴ 15 CFR §14.21(b)(3)

⁵ 15 CFR §14.21(b)(4)

⁶ 15 CFR §14.21(b)(5)

⁷ 15 CFR §14.21(b)(6)

⁸ 15 CFR §14.21(b)(7)

through September 30, 2009. During the audit, the Trade Task Group attempted to recreate expenditures reported for several reports with significant variances. Several of the reports with variances were prepared by an employee no longer working at the Trade Task Group. Without written policies and procedures to show how the original reports were created, the current staff was not able to determine how reported amounts were calculated. In several financial status reports with variances, the incorrect amounts appear to have been entered in the report by mistake. The Trade Task Group's internal controls were not sufficient to identify and correct the errors prior to submission.

The Trade Task Group tracked budgeted to actual project expenses by budget year and updated this analysis on a monthly basis. However, no analysis was performed at the end of each agreement or award to ensure that funds previously received were fully expended. During the audit, the Trade Task Group was not able to provide evidence that all funds received had been disbursed for each cooperative agreement received.

The Trade Task Group's general ledger documented costs incurred of \$3,751,365 related to the March 2005 cooperative agreement, while funds received from EDA for that agreement totaled \$3,642,307. Therefore, the Trade Task Group disbursed \$109,058 more than it received under that cooperative agreement. As the Trade Task Group is exclusively funded through cooperative agreements from EDA and related program income,⁹ any funds available to spend beyond what was received must have originated from a previous EDA cooperative agreement that was not fully expended. As the Trade Task Group did not reconcile funds received to funds disbursed by agreement, we were unable to identify under which cooperative agreement(s) the surplus funds were originally received.

We also identified that, through November 2009, the Trade Task Group had received approximately \$70,474 from EDA more than it had disbursed during the current cooperative agreement. However, as EDA provides funds in advance of the Trade Task Group disbursing program funds, we expect revenues to exceed expenditures until the agreement has ended. Therefore, we will not consider this an issue and will incorporate this amount as a reconciling item in determining funds due to the government for the cooperative agreement.

Although Trade Task Group officials explained a process they use for reviewing and determining whether expenses were allowable, this process was not in place for the entire period under audit. We found that employees and members of the Board of Directors involved in creating and approving financial activity did not follow the uniform administrative requirements or allowable costs according to federal cost principles. Prior to January 2007, expenses claimed by the Trade Task Group were reviewed only to verify that they were supported by source documents, not for

⁹ The Trade Task Group received minimal revenue from firms for assistance in preparing Adjustment Proposals and monitoring the implementation of assistance provided by the consultants. This revenue was used by the Trade Task Group to increase the amount available to spend on further contractual expenses. This revenue was not significant in relation to EDA funding and was adjusted for in this analysis.

allowability or reasonableness. However, we identified at least \$26,651 in disbursements that did not have adequate, original supporting documentation. We also identified and questioned \$13,588 in unallowable costs, including at least \$11,222 for unallowable alcohol costs and \$759 for unallowable gifts.¹⁰ An additional \$956 in disbursements was questioned as excessive and unreasonable. As we used a risk-based method of selecting disbursements for testing, we were not able to extrapolate questioned costs identified to the remaining population of untested transactions.

In October 2009, the Trade Task Group established a written policy for travel expenses, but this policy was not adequate. The travel policy approved by the board of directors provides guidance on the type of costs that are considered allowable, but does not provide guidance on what amount is considered a reasonable expense and what would be considered excessive.

The Trade Task Group provided all written policies and procedures for financial management activities during the audit period. The written procedures provided were not adequate and did not meet the minimum federal standards for financial management systems as previously summarized from the Uniform Administrative Requirements (15 CFR Part 14) above.

Internal controls represent a vital part of the minimum federal standards for financial management systems. Those minimum standards require recipients of federal financial assistance to maintain a system of internal controls to assure effective control and accountability over federal funds and other assets sufficient to assure that all such property and funds are used solely for authorized purposes. Internal controls are expected to help keep an organization focused on its objectives and mission, promote effective and efficient operations, and ensure compliance with laws and regulations. The system should demonstrate an effectively functioning control environment where the board, executive management, and staff alike (1) clearly understand their responsibilities and authorities and (2) recognize that they will be uniformly held accountable within the organization as well as to the American taxpayers who fund their operations.

As presented in subsection A above, we concluded that the financial management internal control weakness resulted in our identification of \$41,195 in questioned claimed costs as unallowable, unreasonable, or unsupported (See table 3 below).

¹⁰ OMB Circular A-122, Attachment B, 3. ("Alcoholic beverages. Costs of alcoholic beverages are unallowable."). OMB Circular A-122, Attachment B, 12.a. ("Contributions or donations rendered. Contributions or donations, including cash, property, and services, made by the organization, regardless of the recipient, are unallowable.").

Table 3. Summary of Questioned Costs

Description	Amount
Unsupported	\$ 26,651
Unallowable	13,588
Unreasonable	<u>956</u>
Total Questioned Costs	\$ <u>41,195</u>

Recommendations

We recommend that the director of the TAAF program:

1. Disallow and recover \$41,195 in questioned project cost.
2. Work with the Trade Task Group to determine from which specific cooperative agreements the additional \$109,058 disbursed in the March 2005 cooperative agreement originated. EDA should then determine what amount, if any, should be disallowed and repaid to EDA.
3. Require the Trade Task Group to comply with minimum federal financial management standards to:
 - a. Develop and document adequate written procedures that will ensure that only allowable, allocable and reasonable costs are claimed.
 - b. Develop and document adequate written policies and procedures to ensure that the time between obtaining advance funds from EDA and the disbursement of related expenditures is minimized.
 - c. Obtain adequate supporting documentation for all costs charged to the federal program.
 - d. Train all Trade Task Group employees and officials that create or review financial activity on federal cost principles; administrative requirements; and the duties, responsibilities, and limitations placed in managing federal funds. This training should ensure that all individuals who create or review financial activity have an adequate understanding of federal requirements as they relate to the cooperative agreements.

II. Adequate Internal Controls for Procurement of Consultants but EDA Should Clarify Records Retention Requirements

We reviewed the Trade Task Group's internal controls for the procurement of consultants as well as files of client firms for compliance with federal procurement requirements. The review for the procurement of consultants hired to provide technical assistance to client firms receiving TAAF assistance also included a review of the Trade Task Group's *Contract Administrative Manual*. We concluded that the Trade Task Group has implemented adequate internal controls to ensure compliance with federal procurement requirements. Our review of 25 Trade Task Group clients' files did not identify any instances of noncompliance with the federal procurement requirements for the selection of the consultants.

However, our review revealed that 11 of the clients' files did not contain all of the supporting documentation needed to verify the eligibility of applicant firms. Retention and access requirements for records are provided in 15 CFR, Section 14.53, which is incorporated by reference in the cooperative agreement. It requires all records pertinent to the cooperative agreements be retained for 3 years after the date of the final expenditure report for the award.¹¹ However, the guidance does provide an exception to the requirement when records are transferred to or maintained by the Department of Commerce.¹² Although the Trade Task Group was required to submit the documentation to EDA during the application process, our review found that the guidance from EDA was not clear about whether this was considered a transfer of documents or merely a submission. The Trade Task Group asserted that all missing information had been transferred to EDA during the client certification process.

Recommendations

We recommend that EDA determine whether it considers applications to be submittals or transfers of documents. EDA should then provide guidance to the TAACs to clarify what documentation EDA expects them to maintain.

III. Prior OIG Audit Finding Resolved

In September 2001, the OIG released an audit report that NWTAAAC, in addition to eight other TAACs, needed to improve internal controls for monitoring contract compliance with clients and consultants. Specifically, we recommended obtaining written certifications or other documentation from consultants and clients to verify clients paid their required share of costs and that firms had provided satisfactory levels of service to the clients.

¹¹ 15 CFR §14.53(b)

¹² 15 CFR §14.53(b)(3)

This audit concluded that the Trade Task Group has obtained the adequate certifications and documentation to demonstrate clients had paid their required portion of contracts and were satisfied with the results from the consultants prior to making final payment to the consultant.

Appendix A: Objectives, Scope, and Methodology

The objectives of our audit of the cooperative agreements were to determine whether (1) costs claimed were reasonable, allowable, and allocable to the federal program; (2) the Trade Task Group established and followed adequate internal controls in the bid process for consultants; and (3) companies receiving TAAF assistance had been trade-injured due to foreign competition. We also conducted a follow-up on prior audit recommendations. Specifically, we reviewed contract files to determine whether the Trade Task Group properly monitored contract compliance with clients and firms in terms of cost-sharing and ensuring clients were satisfied with the performance of consultants.

The audit scope included a review of costs claimed during the award period of March 1, 2005, through November 30, 2009. The scope of our audit was limited and did not include a review of all expenses for the period under audit. We did not audit personnel, fringe benefits, or contract-related expenses, and used a risk-based approach to audit all other expenses. As we did not use statistical sampling to select transactions for testing, we were not able to extrapolate results of testing to the population of untested transactions. We conducted our fieldwork in December 2009 through January 2010 at the Trade Task Group office in Seattle, Washington, and in OIG offices in Seattle, Washington, and Denver, Colorado.

Our audit methodology included review of award files at the Trade Task Group and award and technical files provided by EDA. We (1) examined financial, personnel, and contract records; (2) interviewed EDA employees and Trade Task Group staff; (3) applied relevant analytical procedures; and (4) conducted selective transaction testing based on risk. We reviewed OMB Circular A-133 single audit reports issued by the Trade Task Group's external auditor for the fiscal years ending September 30, 2005, through September 30, 2008. The external auditor rendered unqualified opinions for the four audits, and the Trade Task Group qualified as a low-risk auditee, as defined by OMB Circular A-133. Department of Commerce funding was audited as a major program and the independent auditor did not question costs.

Our audit included an evaluation of the Trade Task Group's internal controls and compliance with laws and regulations as they related to financial assistance award provisions, specifically those provisions pertaining to financial management and procurement. Key criteria we considered in conducting the audit included the Trade Task Group's cooperative agreement applications and assurances, the EDA awards and their respective standard and special terms and conditions, Department of Commerce Financial Assistance Standard Terms and Conditions, federal cost principles set forth in A-122, and the uniform administrative requirements of 15 CFR Part 14. We found several instances of noncompliance with laws and regulations. Those instances are described in the body of this report.

We obtained an understanding of the management controls of the Trade Task Group by interviewing Trade Task Group officials, examining policies and procedures, reviewing written

assertions of Trade Task Group officials, and examining Trade Task Group's OMB Circular No. A-133 audit reports for fiscal years 2005 through 2008. We did not rely on the accounting firm's internal control reviews, but instead determined that we could better meet our audit objectives through testing of transactions. We found that the Trade Task Group needs to improve several aspects of its management controls. The issues are discussed in the body of this report.

To assess the reliability of computer-process data provided by the Trade Task Group, we (1) looked for obvious errors in accuracy and completeness; (2) interviewed Trade Task Group employees who were knowledgeable about the data; (3) compared general ledger totals from the electronic files to monthly bank statements and audited financial statements; and (4) directly tested data against supporting documentation. We determined that the data were sufficiently reliable for the purpose of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We performed this audit under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated August 31, 2006.

Appendix B: Summary of Source and Application of Funds

Trade Task Group

Trade Adjustment Assistance for Firms Cooperative Agreements

**Final Audit of Cooperative Agreements 99-26-07621, 99-26-07635, 99-26-07645,
and 99-26-07645.01**

March 1, 2005, through June 30, 2008

<u>Source of Funds</u>	<u>Approved Award Budget</u>	<u>Claimed By Recipient</u>
Federal Share	\$ 3,747,734	\$ 3,751,365
Recipient Share ^a	501,911	1,237,819
Total	\$ 4,249,645	\$ 4,989,184
 <u>Application of Funds</u>		
Personnel	\$ 1,360,787	\$ 1,221,686
Fringe Benefits	480,116	430,662
Travel	105,106	73,424
Equipment	19,754	19,512
Supplies	16,743	14,728
Contractual	1,667,707	2,673,373
Other Direct	599,432	555,799
Indirect	-	-
Total	\$ 4,249,645	\$ 4,989,184

^a Recipient share refers to the contribution from the client firm to the cost of the contractual expenses. Although it is included in the total project budget by EDA, it does not refer to a matching requirement for the Trade Task Group.

Appendix C: Summary of Financial/Compliance Audit

Trade Task Group

Trade Adjustment Assistance for Firms Cooperative Agreements

Final Audit of Cooperative Agreements 99-26-07621, 99-26-07635, 99-26-07645, and 99-26-07645.01

March 1, 2005, through June 30, 2008

Cost Category	Approved Project Budget	Claimed by Recipient	Per Audit Costs				Ref. Notes
			Accepted	Unaudited	Questioned	Unsupported (Note 1)	
Personnel	\$1,360,787	\$ 1,221,686	\$ -	\$ 1,221,686	\$ -	\$ -	Note 2
Fringe Benefits	480,116	430,662	-	430,662	-	-	Note 2
Travel	105,106	73,424	72,595	-	829	442	Note 3
Equipment	19,754	19,512	19,512	-	-	-	
Supplies	16,743	14,728	14,588	-	140	-	Note 4
Contractual	1,667,707	2,673,373					
Less:							
Client Contribution	(501,911)	(1,179,569)					
Program Income	1,165,796	(58,250)	1,435,554	-	1,435,554	-	Note 2
Other Direct Cost	599,432	555,799	528,203	-	27,596	14,262	Note 5
Total Direct Cost	3,747,734	3,751,365	634,898	3,087,902	28,565	14,704	
Indirect	-	-	-	-	-	-	
Fee	-	-	-	-	-	-	
Total	\$3,747,734	\$ 3,751,365	\$ 634,898	\$ 3,087,902	\$ 28,565	\$ 14,704	
Federal Share	100.00%		\$ 3,722,800				
Less Federal Disbursements to Date			(3,642,307)				
Less Excess of Expenditures over Revenue			(109,058)				
Due (Government)/Recipient			\$ (28,565)				

Reference Notes

- Note 1 *Unsupported costs* are those costs that the recipient could not adequately support at the time of audit; unsupported costs are also included in the total of questioned costs.
- Note 2 The scope of our audit was limited. We did not audit personnel, fringe benefit, or contractual expenses and therefore do not make any representation as to the allowability of those expenses.
- Note 3 Questioned travel costs totaling \$829 are comprised of \$442 in unsupported meal expenses and \$387 in unallowable expenses. Included in the unallowable expenses are \$327 for alcohol (per OMB Circular A-122, Attachment B,3.) and \$60 for meal expenses for individuals not in travel status or non-employees or members of the Board of the Trade Task Group.
- Note 4 Questioned supplies costs totaling \$140 are comprised of gifts. Gifts are unallowable expenses per OMB Circular A-122, Attachment B,12.
- Note 5 Questioned other direct costs totaling \$27,596 are comprised of \$14,262 in unsupported expenses; \$12,378 in unallowable expenses; and \$956 in unreasonable expenses. Included in the unsupported expenses were charges for meals that did not have adequate, original supporting documentation (OMB Circular A-122, Attachment A, A.2.g.). Included in the unallowable expenses were \$10,895 for alcohol (OMB Circular A-122, Attachment B,3); \$48 for movies charged to hotel rooms (OMB Circular A-122, Attachment B,14); \$343 for a second room for a director at a Board of Directors' meeting (OMB Circular A-122, Attachment A, A.2.a.); and \$1,092 for an employee's retirement dinner (OMB Circular A-122, Attachment B,14). Unreasonable expenses resulted from members of the Board of Directors' receiving upgraded hotel rooms at a higher cost than rooms provided to the Trade Task Group employees at a Board meeting. The amount was calculated as the difference between the cost of hotel rooms provided to employees and those provided to the Board (OMB Circular A-122, Attachment A, A.3).

Appendix D: Summary of Source and Application of Funds

Trade Task Group

Trade Adjustment Assistance for Firms Cooperative Agreements

Interim Audit of Cooperative Agreements 99-26-07661 and 99-26-07661-01

July 1, 2008, through November 30, 2009

<u>Source of Funds</u>	<u>Approved Award Budget</u>	<u>Claimed By Recipient</u>
Federal Share	\$ 2,076,780	\$ 1,460,438
Recipient Share ^a	366,505	570,258
Total	\$ 2,443,285	\$ 2,030,696
 <u>Application of Funds</u>		
Personnel	\$ 706,261	\$ 566,081
Fringe Benefits	237,642	201,057
Travel	55,894	26,036
Equipment	6,754	6,312
Supplies	7,237	6,748
Contractual	1,120,799	978,640
Other Direct	308,698	245,822
Indirect	-	-
Total	\$ 2,443,285	\$ 2,030,696

^a Recipient share refers to the contribution from the client firm to the cost of the contractual expenses. Although it is included in the total project budget by EDA, it does not refer to a matching requirement for the Trade Task Group.

Appendix E: Summary of Financial/Compliance Audit

Trade Task Group

Trade Adjustment Assistance for Firms Cooperative Agreements

Interim Audit of Cooperative Agreements 99-26-07661 and 99-26-07661-01

July 1, 2008, through November 30, 2009

Cost Category	Approved Project Budget (Note 2)	Claimed by Recipient	Per Audit Costs				Ref. Notes
			Accepted	Unaudited	Questioned	Unsupported (Note 1)	
Personnel	\$ 706,261	\$ 566,081	\$ -	\$ 566,081	\$ -	\$ -	Note 2
Fringe Benefits	237,642	201,057	-	201,057	-	-	Note 2
Travel	55,894	26,036	25,737	-	268	219	Note 3
Equipment	6,754	6,312	-	-	-	-	
Supplies	7,237	6,748	6,312	-	119	-	Note 4
Contractual	1,120,799	978,640	6,629	-	-	-	
Less:							
Client Contribution	(366,505)	(553,958)	-	408,382	-	-	
Program Income	754,294	(16,300)	408,382	-	-	-	Note 2
Other Direct Cost	-	245,822	233,579	-	12,243	11,727	Note 5
Total Direct Cost	2,076,780	1,460,438	272,288	1,175,520	12,630	11,946	
Indirect	-	-	-	-	-	-	
Fee	-	-	-	-	-	-	
Total	\$2,076,780	\$ 1,460,438	\$ 272,288	\$ 1,175,520	\$ 12,630	\$ 11,946	
Federal Share	100.00%		\$ 1,447,808				
Less Federal Disbursements to Date			(1,530,912)				
Less Excess of Revenues Over Disbursements			70,473				
Due (Government)/Recipient			\$ (12,630)				

Reference Notes

- Note 1 *Unsupported costs* are those costs that the recipient could not adequately support at the time of audit; unsupported costs are also included in the total of questioned costs.
- Note 2 The scope of our audit was limited. We did not audit personnel, fringe benefit, or contractual expenses and therefore do not make any representation as to the allowability of those expenses.
- Note 3 Questioned travel costs totaling \$268 were comprised of \$219 in unsupported expenses and \$49 in unallowable expenses. Unsupported expenses were comprised of meals that did not have adequate supporting, original documentation (OMB Circular A-122, Attachment A, A.2.g.). Unallowable expenses were comprised of meal expenses for individuals not in travel status and therefore not eligible for reimbursement of meal expenses.
- Note 4 Questioned supplies expenses totaling \$119 were comprised of gifts. Gifts are unallowable expenses per OMB Circular A-122, Attachment B,12.
- Note 5 Questioned other direct costs totaling \$12,243 were comprised of \$11,727 in unsupported expenses and \$516 in unallowable expenses. Unsupported expenses were meal expenses that did not have adequate supporting, original documentation (OMB Circular A-122, Attachment A, A.2.g.). Unallowable expenses consisted of \$16 for a movie charged to a hotel room (OMB Circular A-122, Attachment B,14) and a \$500 retirement gift to a former employee and contractor (OMB Circular A-122, Attachment B,12).

Appendix F: Recipient Response

TRADE TASK GROUP
1200 Westlake Ave N, Suite 802
Seattle, Washington 98109-3529
Northwest TAAC
206-422-2730

Board of Directors
Honorable David H. Leroy, Esq.
Chairman, Trade Task Group
Bozeman, Idaho

Ronald A. Schoenholt
President, Trade Task Group
Portland, Oregon

Mr. Walter Evans
Portland, Oregon

August G. Frosnuth
Wendell, New Hampshire

William Perry
Seattle, Washington

Ronald A. Horst
Fernald, California

Paul Huppert
Palmer, Alaska

Honorable Jay Kertula
Palmer, Alaska

Brian Utter
Seattle, Washington

Spencer Williams
Bozeman, MT

Officers
Ronald A. Schoenholt
President

Paul Huppert
Vice President

William Perry
Co-Treasurer

Brian Utter
Co-Treasurer

Gary G. Kuhar, Esq.
Secretary

A NONPROFIT ORGANIZATION

April 15, 2010

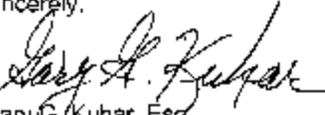
Mr. David Sheppard
Regional Inspector General for Audits
U.S. Department of Commerce
915 Second Avenue, Room 3062
Seattle, WA 98174

Dear Mr. Sheppard:

The enclosed document and appendix is the response of Trade Task Group to Draft Audit Report No. STL-19882, March 2010. There are three (3), three-ring binders that are also part of its response.

If you have any questions, please contact me at your convenience.

Sincerely,


Gary G. Kuhar, Esq.
Secretary

OVERVIEW

It has always been and remains the policy of Trade Task Group (TTG) to be excellent stewards of taxpayer dollars. While the Office of Inspector General's (OIG) report identifies certain amounts it thinks should not be allowed, TTG is also anxious to correct any non-compliance.

Two of the OIG's three original objectives had no negative findings. However, certain costs were identified as unsupported, unallowable and unreasonable. TTG's response agrees that certain costs were unallowable and unreasonable. However, TTG disagrees with most of the alleged unsupported costs.

The OIG also makes certain findings regarding TTG's financial management policies and procedures. TTG has attempted to comply with all relevant government policies and procedures (financial and otherwise). However, TTG disagrees with much of the OIG's findings and recommendations in this area because: 1.) TTG's financial policies and procedures were not adequately reviewed by OIG during its audit of TTG; 2.) most of the recommendations made by OIG were already in existence and had been implemented prior to this audit; and 3.) mistakes made in approving unallowable expenses were not due to lack of policies or procedures, but to a misunderstanding/mistake regarding what was allowable.

Another statement made by the OIG is related to the perceived lack of a records retention policy on the part of TTG. In fact, TTG has a record retention policy which is more restrictive than the federal government's.

Finally, OIG came into the audit with incorrect assumptions regarding certification requirements and responsibilities.

The subsequent discussions follow the format of the OIG draft report.

The introduction to the report and subsequently therein, the OIG states on page 1, paragraph 1 that "In March 2005, the Economic Development Administration (EDA) awarded a three-year TAAF cooperative agreement to TTG, in Seattle, Washington". In fact, this was a one year agreement which had subsequent amendments which brought it up to three years. (See Note #1.) The only three-year cooperative agreement awarded to TTG by EDA was done in June 2008. (See Note #2.) This was the result of the only three-year refunding proposal submitted by TTG in its history in January 2008. (See Note #3.) All cooperative agreements issued to TTG by EDA before the above referenced agreement were single year (annual) in duration or less. Amendments made to the annual agreement may have extended it for up to three years, but it was not initially identified to TTG as a three-year cooperative agreement.

This is significant because the OIG alleges TTG spent \$109,058 more than it had in revenue. Since virtually all of TTG's revenue comes from EDA (a small amount is generated from the charges to client firms for preparation of its adjustment proposals), OIG has questioned how this was possible.

Going back many years, EDA has instructed TTG to keep open its prior annual cooperative agreement until its funds were expended. TTG had been told there was no need for close-out of the old cooperative agreements as long as Congress, when approving the annual program appropriations, included the words "to remain available until expended".

Historically, TTG has used funds from the prior periods to pay consultant contracts obligated within the prior period. TTG has been careful not to use prior funds for current year obligations until all prior period consultant contract obligations had actually been paid. TTG has attempted to comply with 15 CFR 14.28 in its use of funds for prior obligations.

The source of the \$109,058 was cooperative agreements prior to the March 1, 2005 date. TTG had carried over \$237,534 from the prior agreement period (March 1, 2004 – February 28, 2005). This amount was spent on obligations incurred in the prior period (March 1, 2004 – February 28, 2005) but actually paid during the March 1, 2005 agreement. The obligations incurred but not yet paid for prior to March 1, 2005, amounted to \$204,234. After the \$204,234 was actually paid out, the approximate \$33,000 remaining was added to the March 1, 2005 year's consultant line.

EDA decides when an award must be closed out. TTG has always followed the instructions of EDA as to the close-out of an award.

Prior to the 2007 award close-out the last true close-out was in 1995. In the 2007 close-out TTG returned approximately \$138,000 to EDA and in the 1995 close-out it returned approximately \$110,000. In all other years, EDA has instructed TTG to carry over unspent funds to use on obligations incurred in the prior year. The formal close-out procedure was not implemented by EDA. Prior year funds were carefully used for prior year obligations (See 15 CFR 14.28 above).

The following OMB Circular states: **OMB Circular A-122 (6) Responsibilities: Agencies responsible for administering programs that involve awards to non-profit organizations shall implement the provisions of this circular.**

This is an issue EDA and TTG can resolve together.

Findings and Recommendations

I. Results of Financial/Compliance Audit

A. Questioned Costs Total \$41,226

Page 5 paragraph 1 states: **"We (OIG) questioned \$41,226 in Trade Task Group claimed costs as unallowable, unreasonable, or unsupported."** TTG admits to part of these figures but, disagrees with others as stated below and throughout this response.

Page 5 paragraph 1 further states: **"Our (OIG) review disclosed that the Trade Task Group did not ensure its administration of the cooperative agreements adhered to award terms and conditions inclusive of federal cost principles, uniform administrative requirement, and special and standard award conditions."** Although TTG admits to some errors, the above statement is too broad and without adequate specificity to be able to respond. The specifics of which award terms and conditions, federal cost principles, uniform administrative requirements and special and standard award conditions, are not found in the cited appendices. Without knowing the specifics, it is difficult for TTG to be sure it has corrected what needs to be corrected.

B. Financial Management System Needs Improvement

Page 6 paragraph 2 states: **"Although the Trade Task Group had established informal procedures, it did not have written procedures for most financial management activities as required."** TTG has three volumes of Accounting Policies and Procedures and provided these volumes to the OIG at the exit interview. It was an unfortunate miscommunication between OIG and TTG that caused these documents not to be discussed and produced before the exit meeting. (See Note #4)

The OIG made a very cursory review of these volumes. However, when offered the opportunity to take them along at the exit interview and review them and make adjustments to their findings, they declined.

TTG established these policies and procedures over seven years ago. Since TTG's private auditor, during the annual audit, did not find these written policies and procedures lacking, we have not questioned their adequacy. Also included is a copy of TTG's private auditor's **"Accounting Systems and Internal Control Narratives"**. (See Note #5).

Page 6 paragraph 4 states: **"The Trade Task Group did not have the required written procedures providing a process for minimizing the time between obtaining advance funds from EDA and the time that related program disbursements are made."** TTG does have such written procedures.

Since June 2008, when TTG's executive director met with EDA's chief legal counsel and TTG's Federal Program officer, TTG submits a very detailed report of what and when the advance funds will be expended in the upcoming month for which advance funds were received (see Note #6). This written report is entitled "NWTAAAC Anticipated Expenditures" and is a separate document from the SF-270 also submitted. This report has proven very accurate because by the end of the month TTG would be unable to make the next payroll without receipt of the next advance of funds from EDA. TTG will never have the large carry-over like it did on March 1, 2005 because of this change in its procedure and this anticipated expenditure report. The only exception would be if there is a large anticipated obligation or obligations which will become due in the next month.

Page 6 paragraph 5 states: **"We found that the Financial Status Report under-reported the federal share of expenditures from the general ledger by \$400,232, or 7.24 percent, from October 1, 2004, through September 30, 2009."** This is the same problem identified in the opening remarks of this response. EDA infrequently went through the formal close-out process at the end of an award. TTG was instructed to use up the remaining funds.

It is true, TTG was not tracking its expenses by cooperative agreement number at this time. Beginning in February 2009, it has put into place a system to track everything by cooperative agreement number.

Page 6 paragraph 5 further states: **"In other reports with variances, the incorrect amounts appear to have been entered in the report by mistake."** The only reports with a variance TTG is aware of is the above referenced Financial Status Reports for the reasons mentioned above.

Page 7 paragraph 1 states: **"However, no analysis was performed at the end of each agreement or award to ensure that funds previously received were fully expended. During the audit, the Trade Task Group was not able to provide evidence that all funds received had been disbursed for each cooperative agreement received."** TTG produces an internal report called "Funded Projects" that clearly shows the carryover from the previous cooperative agreement period. It also shows the obligated funds from the previous period. (See Note #7). This report is updated weekly and discussed at the weekly staff meeting. The OIG did not ask to review these reports. In preparing this "Funded Projects" report, TTG has attempted to comply with 15 CFR 14.28.

Page 7 paragraph 2 states: **"As the Trade Task Group did not reconcile funds received to funds disbursed by agreement, we were unable to identify what cooperative agreement(s) the surplus funds were originally received under."** TTG did not, as mentioned above, begin tracking its funds received to funds disbursed by cooperative agreement until February 2009.

Page / paragraph 4 states: **"Although Trade Task Group officials explained a process they use for reviewing and determining whether expenses were allowable, this process was not in place for the entire period under audit."** In fact, the process was in place for the entire period in question. The problem in allowing unallowable expenses to be paid was not due to the process. It was the fact that the TTG reviewers mistakenly thought an approved line item for Board of Directors expense "washed" those funds of restrictions for use as long as it was an authorized Board expense. It is now understood that this belief was a mistake.

Page 7 paragraph 4 further states: **"However, we identified at least \$26,682 in disbursements that did not have adequate original supporting documentation. We also identified and questioned \$13, 588 in unallowable costs, including at least \$11,222 for unallowable alcohol costs and \$759 for unallowable gifts. An additional \$956 in disbursements was questioned as excessive and unreasonable."** To better understand these statements, they will be broken down individually. It was the mistaken belief that by creating a line item for "Board of Directors" expense in TTG's annual refunding proposal, that once EDA approved this line item, that this "washed" these funds of restrictions on their use as long as it was for a Board approved expense. It was not until TTG's private audit in November 2007 that the alcohol issue was identified. Since that time all alcohol purchases by TTG has stopped. A "cash" bar is now established at all Board meeting dinners.

Unsupported costs (\$26,682) have been documented. (See Note #8). The questioning of these costs as unsupported stems from a lack of perceived, contemporaneous documentation of attendees at the Board dinners. The OIG would not accept the Board minutes or the dinner attendance survey prepared by the staff prior to the dinner to see who was actually attending as adequate documentation of who was in attendance at the dinner. (See Note #9).

Of the \$26,682 of unsupported expenses, \$23,658 was due to lack of an acceptable list of attendees at the Board dinner. TTG has documented the attendees in the attachment (see 'Board Dinners' attachment as identified in Note #8 above). At a minimum, the board members' dinners should be allowable (OMB A-122 (52)). TTG argues that the staff dinners should also be allowable because attendance by the staff at these dinners was mandatory. Attendance was mandatory because this venue was the best place for the Board members to meet and discuss the program operations with the staff. This interaction between Board and staff gave the Board excellent, independent information on the operations of NWTAAC and helped to execute the mission and vision of TTG. This information was also critical to fulfilling its oversight function. It allowed the Board to obtain information separate from the TAAC's management. The employees' dinners can also be considered "employee morale cost" under OMB Circular A-122 attachment B(13).

In determining the reasonableness of a given cost, consideration shall be given to: (a) whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award. (**OMB Circular A-122 attachment A: (A) Basic Considerations (3) Reasonable costs.**) Local Board members' dinners should be paid for also based on this ordinary and necessary expense analysis as identified above. Therefore, only the cost of the Board members spouses' dinners should be disallowed.

OMB Circular A-122 attachment B(8) Compensation for personal services (a) Definition states: "compensation for personal services includes all compensation paid currently or accrued by the organization for... It includes, but is not limited to, salaries, wages, director's and executive committee member's fees..." (3) states: "special consideration in determining allowability. Certain conditions require special consideration and possible limitations in determining costs under Federal awards whose amounts or types of compensation appear unreasonable. Among such conditions are the following: (1) Compensation to members of non-profit organization, trustees, directors, associates, officers, or the immediate families thereof. Determination should be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of cost."

Given the above OMB reference which appears to allow compensation to be given to directors of non-profits in a Federal program, the cost of dinner for the director and their spouse would seem inexpensive compensation for the services rendered by these highly successful private industry individuals. Yes, these costs for dinner were not identified as compensation. However, the point is compensation is allowable for TTG's directors and would cost the government much more than what the dinners did cost the government. **It is acknowledged that alcohol would still be not allowed in the calculation of costs.**

The lack of detailed receipts was also the reason the OIG did not allow the remaining amount of \$3,024 as unsupported. Part of this amount (\$1,889) there are actually detailed receipts for, so TTG is not sure if this was a mistake or if the OIG meant this amount to go into another category. The majority of the remaining balance of these charges (\$1,135) was for food charged to a room by Board members and staff attending a Board meeting and a Board luncheon away from Seattle. However, room food charges often lack the specificity required by the OIG. This detail is often beyond the control of the party making the room charge because some hotels do not include the detail on the hotel bill.

The next expenses to be addressed are \$13,588 as unallowable costs according to the OIG. Of this amount, \$11,222 was for alcohol. There is approximately another \$2,367 also claimed as unallowable.

The \$2,367 breaks down as follows: A retirement party for a 20-year employee (\$1,092); a retirement gift for another 20-year employee (\$500); flowers for sick and deceased Board members and families (\$259); miscellaneous expenses of (\$407); and lunches for (\$109). Again, Board expense line item was used as an appropriate source for the expenses with Board approval.

The retirement party and retirement gift are arguably allowable under Employee Morale costs. **OMB Circular A-122, attachment B(13)**. Such costs are also an ordinary and necessary cost in promoting and rewarding employee dedication to the program.

Other unallowable costs were an extra room for a Board member's children (\$343), movie rentals (\$64); and flowers for sick and deceased Board members wives (\$259).

The OIG disallowed as unallowable three lunches between the executive director and TAAC advisors as unnecessary for TAAC business. The OIG did not ask the purpose of these meetings. One was with a former Board member who is a lawyer specializing in employment law. The executive director had an employee who was under-performing and this lunch was a discussion of how to improve the situation or terminate the employee legally. The other two lunches were with co-presenters on Port of Tacoma and Montana World Trade Club (on trade) presentations and how the TAAF program fits into the overall picture. These lunches, two of several were the organizing and presentation development meetings. The expenses of several other organizing lunch meetings were paid for by the other participants. These expenses amounted to approximately \$101 (see Note #10). These were ordinary and necessary costs in the performance of TTG's mission.

The final amount questioned by the OIG was approximately \$956. These expenses were disallowed as unreasonable. The source of these expenses was room upgrades for the Board members at the last Portland Board meeting. The hotel offered upgrades to a suite for an additional \$50 per room. While the staff did not avail themselves of the upgrade the executive director felt it was a good gesture for our volunteer Board to receive the benefit. (See Note #11.)

TTG does not dispute the following:

- \$11,222 for alcohol;
- \$ 343 for the extra room;
- \$ 64 for movies;
- \$ 259 for flowers; or
- \$ 956 for room upgrades

for a total of \$12,844.

TTG does dispute as unallowable the \$1,092 for a retirement party. It also disputes \$500 for a retirement gift for another employee. **OMB Circular A-122** sections on Employee Morale costs and the reasonableness of such costs (as identified and defined above) are the reasons why TTG disputes these as unallowable.

TTG also disputes the \$26,682 as unsupported due to lack of adequate, original supporting documentation. As seen in the attachments, there is supporting documentation.

Page 7 paragraph 5 states: **"The travel policy approved by the Board of Directors provides guidance on costs that are considered allowable, but does not provide guidance on what is considered a reasonable expense and what would be considered excessive."** TTG's Board passed an updated travel policy in October 2009 to clarify what was expected in order to be reimbursed for travel expenses. This travel policy is more restrictive than that of the federal government and complies with IRS requirements. (See Note #12.)

OIG attempts to use the federal per diem allotment for a specific geographic location as the basis of a "reasonable" standard. Without federal identification and official travel orders, hotels and other establishments with a "federal rate" will not allow this rate for a visitor. Federal I.D. and travel orders must be presented in order to receive the federal rate.

Page 8 paragraph 1 states: **"The Trade Task Group did not provide any additional written policies or procedures for financial management activities during the audit period."** TTG provided three volumes of "Accounting Policies and Procedures" to the OIG at the exit interview as described above.

Until these documents are thoroughly reviewed, any claim that TTG does not have financial policies and procedures should not be made. At most, the only claim that can be made is one of adequacy. TTG has attempted to satisfy **15 CFR 14 et. seq.**

TTG uses its financial policies and procedures daily. It also has dedicated most of its personnel resources to financial and contractual management. Three of five (including the executive director) are directly involved in its financial management. An example, every item for which a check is written must have a form filled out called a "Cash Disbursement Authorization." (See Note #13.) This document is initialed by the requestor and reviewed and initialed by the executive director. This form is filed by the name of the payee with reference to the specific check number used for payment. The administrative assistant then prepares the check and it is signed by the executive director.

Given the size of the organization and the fact the director has no knowledge of how to produce a check, this is the most secure way to handle cash disbursements. All of this and more as described above was in place at the time of the audit and for many years before.

Part I Recommendations

Trade Task Group agrees and disagrees with the following recommendations.

1. **“Disallow and recover \$41,226 in questioned project costs”**: TTG agrees that the alcohol cost, the extra room cost, the flower cost, the movie costs and the room upgrade costs totaling \$12,844 should be recovered by EDA. However, TTG does not agree with \$26,682 claimed as unsupported, the retirement party cost, the retirement gift cost or the three lunch costs for a total of \$28,383 as unallowable costs.
2. **“Work with the Trade Task Group to determine the source of the additional \$109,058 disbursed in the March 2005 cooperative agreement and determine what amounts if any should be repaid to EDA”**: TTG has identified the source of funds above. While it is true, TTG did not trace the revenue and expense incurred by cooperative agreement number on the Financial Status Report until June 2009, it still prepared internal reports (Funded Projects) that showed the carry-over from prior award periods. Since EDA did not formally close out the prior award to the one starting on March 1, 2005, TTG had \$237,534 in its checking account on March 1, 2005. This amount was used to pay for \$204,234 in obligated contracts incurred prior to March 1, 2005. (The large amount carried over has been reduced by the new procedure installed by TTG in June 2008 so such large amounts will not appear in its checking account again). All interest earned on amounts in TTG's checking account were repaid to EDA.
3. **Require the Trade Task Group to comply with minimum federal financial management standards to:**
 - a. **develop and document written procedures that will ensure that only allowable, allocable and reasonable costs are claimed**; TTG established its Accounting Policies and Procedures over seven years ago. This mistake has now been corrected.
 - b. **develop and document written policies and procedures to ensure that the time between obtaining advance funds from EDA and the disbursement of related expenditures is minimized**; TTG established these policies and procedures and has been using them since June 2008. These are approved by EDA monthly in a report entitled “NWTAAC

Anticipated Expenditures' and submitted along with its SF-270. This report identifies what will be paid, how much to whom and when it will be paid. It has proven very effective because by the end of the month, TTG does not have enough in its checking account to make the next payroll without receiving the next advancement of funds from EDA.

- c. **obtain adequate supporting documentation for all costs charged to the federal program;** TTG has had an ongoing improvement program in this regard for several years. The travel and expense reimbursement policy approved by TTG's board in November 2009 is actually more restrictive than the federal policy (must have itemized receipt for all expenses over \$25 as compared to \$71 for federal employees). Federal rates are not available to TTG at establishments that have such rates. It is necessary to show federal identification along with travel orders in order to access these 'federal rates'.
- d. **train all Trade Task Group employees and officials that create or review financial activity on federal cost principles, administrative requirements, and the duties, responsibilities, and limitations placed in managing federal funds. This training should ensure that all individuals who create or review financial activity have an adequate understanding of federal requirements as they relate to the cooperative agreements.** TTG is always open and anxious to learn how to better administer its cooperative agreement with EDA. TTG has annual private audits and tries to be as transparent as possible in its dealings with EDA. Yet, in spite of its best efforts, mistakes have been made. The OIG audit has been a learning experience in itself. While not agreeing with all of its recommendations (most have already been implemented prior to the audit) it has proven to be a positive undertaking. TTG awaits the referral from OIG of a class or seminar to attend to better understand the requirements to an even higher degree.

II. Adequate Internal Controls for Procurement of Consultants but Records Retention Policy Needed

Page 9 paragraph 2 states: "However, our review revealed that 11 of the 25 clients' files did not contain all supporting documentation needed to verify the eligibility of applicant firms. We concluded that this was due to the Trade Task Group not having a records retention policy and not requiring project managers to maintain all information in the project files. Retention and access requirements for records are provided in 15 CFR, Section 14.53, which is incorporated by reference in the cooperative agreement. It requires all records pertinent to the cooperative agreements be retained for 3 years after the date of the final expenditure report for the award. However, the guidance does provide an exception to the requirement when records are transferred to or maintained by Commerce. Although the Trade Task Group was required to submit the documentation to EDA during the application process, our review found that the guidance from EDA was not clear about whether this was considered a transfer of documents or

merely a submission. The Trade Task Group asserted that all missing information had been submitted to EDA during the client certification process."

The official client files maintained by TTG were set up and established by EDA. Until approximately 2002, EDA sent the project officer responsible for NWTAAAC out to the TAAC twice per year (Peggy Almazon, Jeff Gren, Lew Podolske, Gene Strausbaugh). These monitors reviewed the official client files to be sure all appropriate documents required were in fact in the file. The internal organization of the official file was dictated by EDA. Even though these semi-annual visits have stopped, TTG has maintained the files precisely as required by these monitors.

OIG essentially admits it did not understand the certification process because one of its three main objectives in the audit notification letter to TTG was to:

"determine whether companies receiving TAAF funds are eligible for the program."

However, the draft report states:

"We (OIG) determined that the TTG is not responsible for certifying firms' eligibility for TAAF assistance or ensuring that firms applying for assistance are eligible." (Page 4 Draft Report)

This statutory confusion carried over to the auditor reviewing client files for supporting documentation needed to verify the eligibility of applicant firms. There was an inadequate understanding of the eligibility standards and she was unable to acknowledge that eligibility can be proven in multiple and/or alternative ways. She seemed only to be looking for a particular document and if she could not find it she could not understand how the criteria could be proven in alternative ways through other documents in the files.

She was also confused by changing FDA requirements which occurred over the period of time covered by the audit. Pertinent documents and information required by EDA were in the files, just maybe not in the exact form she was looking for.

If TTG had not submitted all pertinent information and documentation required by EDA, the client firm would never have been certified. Therefore, in addition to TTG's retained records, all pertinent documents can be found in the EDA files. **15 CFR 14.53(b)(3)** states: "... (3) When records are transferred to or maintained by DoC, the 3-year retention requirement is not applicable to the recipient" (TTG). Since **19 USC 2341(c)(1)** makes it the responsibility of the Secretary of Commerce to certify (the Secretary has delegated the task to EDA) EDA must maintain the official file on the eligibility of a client firm for the TAAF program.

TTG has, in fact, an official records retention policy. This policy is much more restrictive than the three year requirement found within TTG's cooperative agreement

with EDA. Evidence of this is found in TTG's storage room where the official client file (as formatted by EDA) for all TTG clients in its history can be found.

Part II Recommendations

We recommend the Trade Task Group implement a written records retention policy requiring maintenance of all financial records, supporting documentation, and all other records pertinent to the cooperative agreements and firm petitions to EDA. This policy should be monitored to ensure it is followed consistently by all project managers.

As mentioned above, TTG already has a Records Retention Policy in place. This policy is in fact more restrictive than that required by EDA (see Note #14). **As such, TTG does not think this is a valid finding and asks to have this finding removed.**

Issues Outside the Scope of OIG's Draft Report

The OIG has stated that the audit was triggered by an allegation it received (see page 2 of the Draft Report). OIG would not tell TTG what this allegation was or who made it.

The source of the allegation is important because if it came from EDA then for EDA to be the entity to decide the remedy or penalty to be imposed upon TTG would amount to a Conflict of Interest based on the government's own policy.

13 CFR §302.17(a) General. It is EDA's and the Department's policy to maintain the highest standards of conduct to prevent conflicts of interest in connection with the award of Investment Assistance or its use for reimbursement or payment of costs (e.g., procurement of goods or services) by or to the Recipient. A conflict of interest generally exists when an Interested Party participates in a matter that has a direct and predictable effect on the Interested Party's personal or financial interests. *A conflict may also exist where there is an appearance that an interested Party's objectivity in performing his or her responsibilities under the Project is impaired. For example, an appearance of impairment of objectivity may result from an organizational conflict where, because of other activities or relationships with other persons or entities, and Interested Party is unable to render impartial assistance, services or advice to the Recipient, a participant in the Project or to the Federal government. Additionally, a conflict of interest may result from non-financial gain to an Interested Party, such as benefit to reputation or prestige in a professional field.*

If EDA or one of its employees was the source of the allegation made to the OIG, then EDA or that employee should be recused from participating in deciding the remedy or penalty to be imposed.